

January 30, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted an oversubscription of 229.37 percent during the Treasury bills auction of January 29, 2009. The government had offered for sale Treasury bills worth Ksh 5.0 billion during the auction and received bids totalling Ksh 11.5 billion of which Ksh 7.1 billion were in 182 day Treasury bills. The average 91-day Treasury bills rate and the 182-day Treasury bills rate declined by 40 and 56.9 basis points to 7.991 percent and 8.285 percent, respectively, during the week.

The average interbank rate fell by 9 basis points from 5.75 percent in the previous week to 5.66 percent during the week ending January 29, 2009 with an increase in volumes transacted. The repo rate rose by 14 basis points to 4.91 percent from 4.77 percent in the previous week.

The Kenya Shilling weakened against the US dollar, the Euro and the Japanese Yen, but strengthened against the Sterling Pound during the week ending January 29, 2009. Against the US dollar, the shilling weakened to exchange at Ksh 79.70 in the week ending January 29, 2009 compared with Ksh 79.43 per US dollar in the previous week.

Official usable foreign exchange reserves held at the Central Bank declined from US dollar 3,405 million (equivalent to 4.90 months of imports) as at January 29, 2008 to US dollar 2,619 million (equivalent to 3.12 months of imports) as at January 29, 2009.

Central Bank's open market operations mopped Ksh 9.1 billion worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 12.1 billion during the week ending January 28, 2009.

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 452.2 billion as at January 23, 2009. From July 1 to January 23, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 23.2 billion compared with Ksh 22.8 billion in a similar period of 2007/08.

The equity market recorded mixed performance in the week under review. Equity turnover rose by 17.9 percent. However, the NSE 20 Share index fell 9.95 points to settle at 3,262.54 points on January 29, 2009 from 3,272.49 points on January 22, 2009.

Government Securities Auction

The Government securities market maintained the good performance for the fourth consecutive week, recording 229.37 percent during the Treasury bills auction of January 29, 2009. The government had offered for sale Treasury bills worth Ksh 5.0 billion during the auction and received bids totalling Ksh 11.5 billion of which Ksh 7.1 billion were in 182 day Treasury bills.

During the auction the Government accepted bids totalling Ksh 5.3 billion. Of the accepted bids, Ksh 3.5 billion or 66.1 percent were in competitive bids. The proceeds of the auction were adequate to cover the cost of rolling over Treasury bills maturities totalling Ksh 4.1 billion in the week and provide additional borrowing of Ksh 1.2 billion.

Treasury bills interest rates

The average 91-day Treasury bill rate went down by 40 basis points from 8.391 percent in the previous week's auction to 7.991 percent during this week's auction, while the average 182-day Treasury bills rate declined by 56.9 basis points from 8.854 percent in the previous week's auction to 8.285 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate increased from 8.521 percent in the previous week to 8.490 percent, while the 182-day Treasury bills rate increased from 8.996 percent to 8.955 percent.

Table 1 : Interest Rates

Auction date	24-Dec-08	31-Dec-08	8-Jan-09	15-Jan-09	22-Jan-09	29-Jan-09
Average 91 day T. Bills	8.537	8.533	8.488	8.445	8.391	7.991
Average 182 day T. Bills	9.061	9.038	8.972	8.858	8.854	8.285
Month	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-09
Average savings rate	1.67	1.68	1.73	1.74	1.61	1.62
Average overdraft rate	13.49	13.11	13.43	13.91	13.85	14.40

Source: Central Bank of Kenya

Interbank and REPO Market

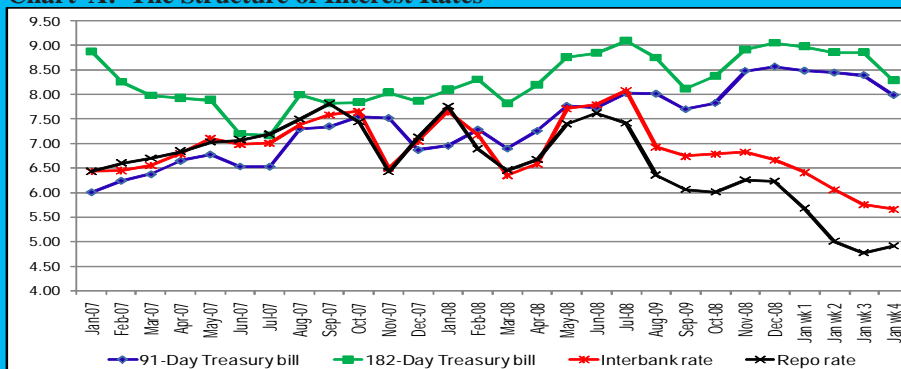
Average interbank rate fell by 9 basis points from 5.75 percent in the previous week to 5.66 percent during the week ending January 29, 2009 with an increase in volumes transacted (Table 2). Interbank volumes rose from Ksh 56.7 billion in the previous week to Ksh 78.5 billion in the week under review. The repo rate rose, by 14 basis points to 4.91 percent from 4.77 percent in the previous week, with a volume of Ksh 6.3 billion being mopped down from Ksh 9.4 billion transacted in the previous week (Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
16-Jan-09	69	10,082	5.95
19-Jan-09	72	9,598	5.77
20-Jan-09	80	12,287	5.71
21-Jan-09	98	11,688	5.68
22-Jan-09	90	13,058	5.66
16 - 22 Jan- 09	409	56,713	5.75
23-Jan-09	82	13,910	5.65
26-Jan-09	101	18,452	5.64
27-Jan-09	104	16,005	5.67
28-Jan-09	92	15,284	5.67
29-Jan-09	75	14,827	5.66
23 - 29 Jan- 09	454	78,478	5.66

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling weakened against the US dollar, the Euro and the Japanese Yen, but strengthened against the Sterling Pound during the week ending January 29, 2009 (Table 3). Against the US dollar, the shilling weakened to exchange at Ksh 79.70 in the week ending January 29, 2009 compared with Ksh 79.43 per US dollar in the week ending January 22, 2009 mainly due to increased foreign exchange demand from the energy sector. The shilling also weakened against the Euro and the Japanese Yen to trade, respectively, at Ksh 104.29 per Sterling Pound and Ksh 89.32 per 100 Japanese Yen in the week ending January 29, 2009 compared with Ksh 104.27 per Euro and Ksh 88.19 per 100 Japanese Yen in the week ending January 22, 2009. The shilling, however, strengthened against the Sterling Pound to trade at Ksh 111.29 per Sterling Pound in the week ending January 29, 2009 compared with Ksh 114.14 per Sterling Pound in the previous week.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
16-Jan-09	79.76	118.13	105.61	88.28
19-Jan-09	78.74	117.02	105.08	86.71
20-Jan-09	78.95	112.55	102.80	87.35
21-Jan-09	79.70	111.47	103.62	88.83
22-Jan-09	80.01	111.55	104.25	89.77
Jan 16 - 22, 2009	79.43	114.14	104.27	88.19
23-Jan-09	79.73	109.76	103.18	90.05
26-Jan-09	79.72	108.52	103.01	89.54
27-Jan-09	79.61	111.90	105.18	88.99
28-Jan-09	79.80	113.70	105.66	89.43
29-Jan-09	79.63	112.55	104.42	88.58
Jan 23 - 29, 2009	79.70	111.29	104.29	89.32

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,405 million (equivalent to 4.90 months of imports) as at January 29, 2008 to US dollar 2,619 million (equivalent to 3.12 months of imports) as at January 29, 2009 (Table 4). The decline in import cover reflects reduction in reserves level as well as a larger import bill mainly due to oil imports. Foreign exchange reserves held by the commercial banks increased from US\$ 1,202 million as at end December 2007 to US\$ 1,766 million as at end December 2008.

Table 4: Official Foreign Exchange Reserves (US\$ Million)

	29-Jan-08	31-Mar-08	30-Jun-08	29-Aug-08	30-Sep-08	31-Oct-08	28-Nov-08	31-Dec-08	29-Jan-09
Usable Reserves	3,405	3,285	3,300	3,152	3,086	2,790	2,736	2,768	2,619
Months of Imports Cover*	4.90	4.67	4.60	4.14	4.06	3.67	3.44	3.35	3.12
Months of Imports Cover**	4.06	3.88	3.67	3.43	3.35	3.03	2.83	2.77	2.62

*Based on 36 month average of imports of goods and non-factor services

**Based on current year's average imports of goods and non-factor services

Source: Central Bank of Kenya

Monetary Policy Operations

Central Bank offered for sale Ksh 2.6 billion on average to the market using the repurchase agreement securities in the week to January 28, 2009 and realized Ksh 1.8 billion on average as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
22-Jan	155.8	168.6	-12.7	2.5	2.6	0.1	152.2	-16.4	-2.0	-14.3
25-Jan	152.7	168.6	-15.8	1.5	2.7	1.2	151.8	-16.7	-2.1	-14.7
26-Jan	155.1	168.6	-13.5	5.0	2.1	-2.9	152.4	-16.1	-1.5	-14.6
27-Jan	152.8	168.6	-15.7	2.5	1.3	-1.2	152.0	-16.5	-2.1	-14.4
28-Jan	153.0	168.6	-15.6	1.5	0.4	-1.1	152.7	-15.9	-2.0	-13.9
Average	153.9	168.6	-14.7	2.6	1.8	-0.8	152.2	-16.3	-1.9	-14.4

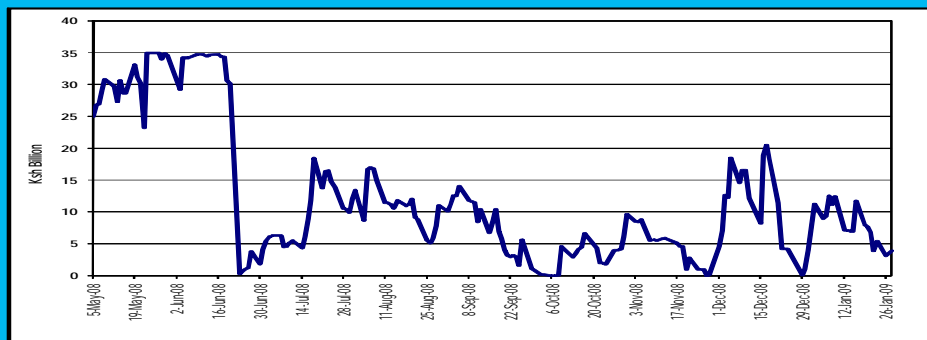
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Repurchase Agreement Securities held by Comm Bks

The Central Bank's open market operations mopped Ksh 9.1 billion using repurchase order agreement securities from commercial banks in the week ending January 29, 2009 against redemptions of Ksh 12.1 billion. As a result, the stock of repo securities held by commercial banks with Central Bank declined to Ksh 3.9 billion by January 28, 2009 from Ksh 6.8 billion on January 22, 2009 as shown in Chart B. Reserve money in the week ending January 28, 2009 averaged Ksh 152.2 billion which was within target by Ksh 16.3 billion.

Chart B: Commercial Banks Repo Holdings

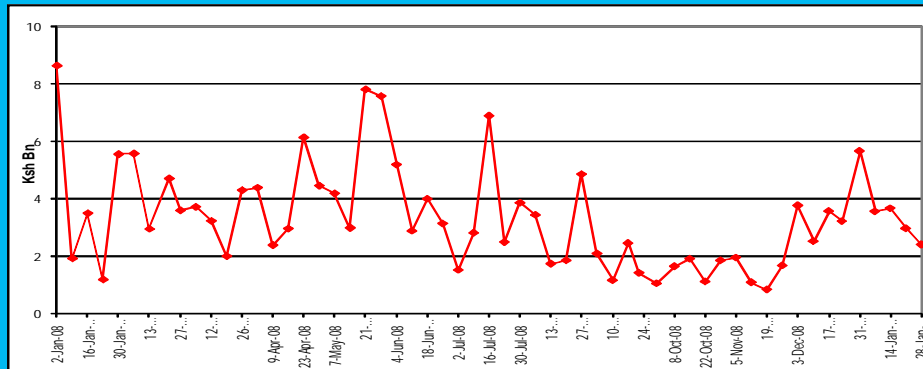


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

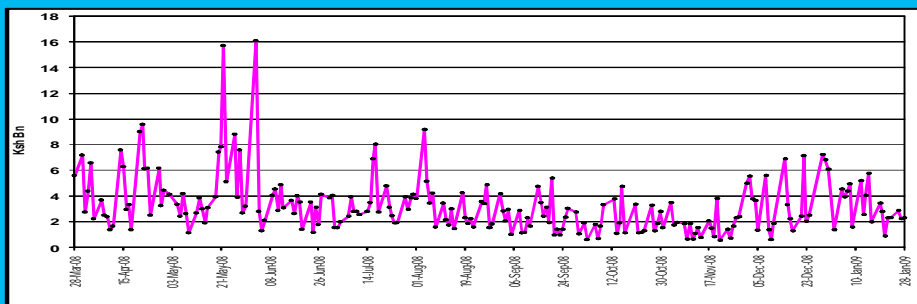
In the week to January 28, 2009, commercial banks maintained an average of Ksh 2.4 billion in their clearing accounts at the Central Bank, compared with Ksh 3.0 billion held in the previous week (Chart C1). To ease liquidity shortfalls during the week Ksh 1.4 billion was borrowed by commercial banks from the Central Bank overnight window.

Chart C1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart C2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased by Ksh 21.6 billion, from Ksh 430.6 billion in June 2008 to Ksh 452.2 billion as at January 23, 2009 (Table 6 and Chart D). The rise in gross domestic debt during the period is attributed to increases of Ksh 16.6 billion in Treasury bills excluding repos, Ksh 2.0 billion in Treasury bonds and Ksh 5.5 billion in overdraft at the Central Bank of Kenya (CBK). However, these increases were partly offset by a decrease in other domestic debt amounting to Ksh 2.5 billion.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 93.4 billion as at January 23, 2009. Treasury bonds and overdraft at CBK also increased from Ksh 315.2 billion and zero, respectively, to Ksh 317.2 billion and Ksh 5.5 billion during the period. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 35.3 billion while Government long term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the holdings of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.1 percent as at January 23, 2009 while Treasury bills holdings increased from 19.6 percent to 22.7 percent during the period. As a result, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 5 months during the period.

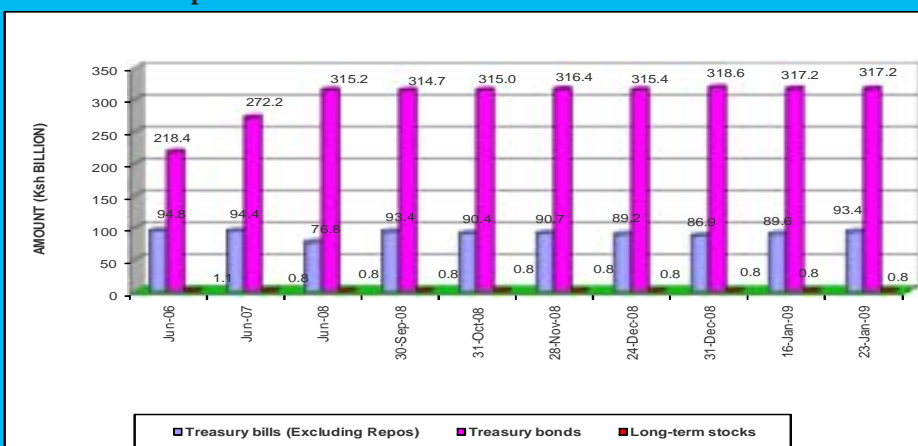
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	28th Nov 08	31st Dec 08	16th Jan-09	23rd Jan-09	Changes	
						16th Jan-09 - 23rd Jan-09	30th Jun-08 - 23rd Jan-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	90.9 22.0	86.9 21.4	89.6 22.0	93.4 22.7	7.9	16.6
2. Treasury Bonds (As % of total securities)	315.2 80.2	320.9 77.8	318.6 78.4	317.2 77.8	317.2 77.1	-1.4	2.0
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	412.5	406.3	407.5	411.4	6.5	18.6
5. Overdraft at Central Bank	0.0	3.9	15.1	9.5	5.5	-5.1	5.5
6. Other Domestic debt*	37.8	36.2	34.9	34.5	35.3	0.5	-2.5
7. Gross Domestic Debt (4+5+6)	430.6	452.6	456.2	451.6	452.2	1.8	21.6
8. Interest payments on domestic debt (Cumulative in FY)	42.2	18.7	21.4	22.2	23.3	1.9	

* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCS.

Source: Central Bank of Kenya

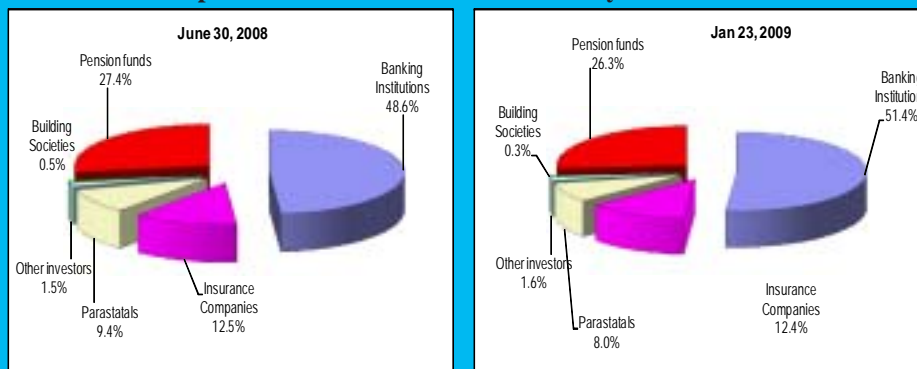
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

The share of Government securities by commercial banks increased from 48.6 percent in June 2008 to 51.4 percent as at January 23, 2009 (Chart E). Similarly, holdings of other investors increased from 1.5 percent to 1.6 percent during the period. However, the proportion of securities held by insurance companies, building societies, pension funds and parastatals declined from 12.5 percent, 0.5 percent, 27.4 percent and 9.4 percent, respectively, to 12.4 percent, 0.3 percent, 26.3 percent and 8.0 percent during the period.

Chart E: Composition of Government Securities by Investor

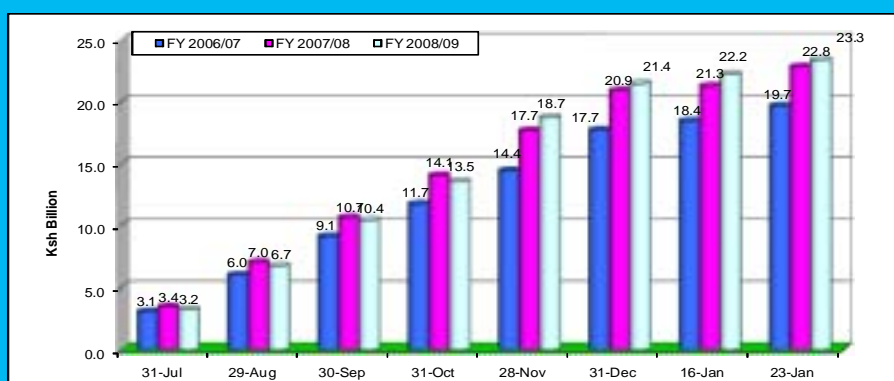


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1 to January 23, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 23.2 billion compared with Ksh 22.8 billion in a similar period of 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 17.3 billion in interest and other charges on Treasury bonds, Ksh 5.5 billion in interest and other charges on Treasury bills and Ksh 0.6 billion in interest on Government overdraft at Central Bank of Kenya.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was mixed performance at the equity market during the week ending January 29, 2008 as reflected by key market indicators. Equity turnover rose by 17.9 percent as stocks worth Ksh 0.7 billion were traded compared with Ksh 0.6 billion traded in the previous week. The number of shares traded rose from 45.1 million in the previous week to 55.4 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, fell by 0.4 percent from Ksh 789.51 billion in the previous week, to Ksh 786.52 billion in the week under review. The NSE 20 Share index lost 9.95 points to settle at 3,262.54 points on January 29, 2008 from 3,272.49 points on January 22, 2009. The Nairobi All Share Index dropped 0.16 points and closed at 67.93 points from 68.09 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	4th Dec 2008	11th Dec 2008	18th Dec 2008	24th Dec 2008	31st Dec 2008	8th Jan 2009	15th Jan 2009	22nd Jan 2009	29th Jan 2009
NASI 100= Jan 2008	66.81	69.36	71.19	71.79	73.37	73.07	71.68	68.09	67.93
NSE 20 Share Index 100=1966	3,162.43	3,251.03	3,367.07	3,406.04	3,521.18	3,546.01	3,447.45	3,272.49	3,262.54
Number of Deals	7,904	7,709	6,159	4,421	3,723	9,470	9,971	7,975	8,313
Total Shares Traded (millions)	37.10	33.50	26.70	18.43	50.40	29.70	42.40	45.09	55.42
Equity Turnover (Ksh. millions)	580	439	379	267	2,962	480	786	591	697
Market Capitalization (Ksh. Bn.)	750.08	770.17	790.54	835.51	853.88	847.18	831.16	789.51	786.52
Bonds Turnover (Ksh. millions)	4,274.20	1,732.40	636.35	495.95	178.00	1,082.60	2,565.40	1,236.40	1,134.00

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 37.6 million shares and accounted for 67.8 percent of total traded volume. Safaricom traded 33.9 million shares to be the most active stock in the sector. The Finance and Investment sector traded 13.0 million shares and accounted for 23.5 percent of traded volume. KCB was the most active counter trading 8.8 million shares. Industrial and Allied sector traded 4.7 million shares and accounted for 8.5 percent of traded volume. KenGen and Mumias shares were the most active counters, trading 0.5 and 2.7 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week as bonds worth Ksh 1134.00 million were traded compared with Ksh 1236.4 million traded in the previous week